

**WHAT YOU ARE ABOUT TO READ WILL AMAZE YOU:** especially if you are sitting on cash because of the "*economic crisis*."

**HOW AN INVESTOR WHO NEVER BOTHERED TO SAVE MONEY MADE SUBSTANTIALLY MORE THAN AN INVESTOR WHO DILIGENTLY SAVED EACH AND EVERY YEAR FOR 20 YEARS AND LEFT HIS MONEY IN THE BANK.**

We are about to show you that a person who does not regularly save any money, can accumulate substantially more than a person who starts with exactly the same amount and diligently embarks on a 20 year saving plan, and manages to get a steady 6% return each and every year in the Bank which he always reinvests!

### **What?**

In fact, what we are about to show you proves conclusively that earning more and regular savings does not help.

We will show you how investing smarter is even more important than saving hard when it comes to building wealth.

We will also show you how inflation can affect investments.

**We are about to show you that inflation can be your best friend, and that leaving cash in the bank can possibly be one of the worst things to do.**

The figures below show the real inflation rate as published by the reserve Bank of Australia for each year ending December over a 20 year period.

Through the power of geometric progression, and using leverage, inflationary growth, and having rents linked to the inflation rate it is entirely possible to maintain the buying power of your money, achieve excellent growth in asset values, increases in income from the investment, and have inflation rapidly lower the value of your debt.

Whilst nobody knows the future, and nobody can determine whether

we are entering into an inflationary climate into the next three to 10 years, what we ARE about to show you will still amaze you.

**What we are about to show you proves conclusively that regular savings and bank deposits do not help you maintain and increase your wealth.**

You decide, because your research led you to believe that with the printing of extraordinary large amounts of money and many countries entering a period of "quantitative easing" to kick-start ailing economies, that you felt the inflationary effects of such excess money supply could start.

**But in case you have only been around during the past 10 years or so and only experienced low inflation, let's pretend it is 1971 again so we can use the real inflation figures Australia actually experienced during the years from 1971.**

You decide to protect yourself against the ravages of inflation by purchasing an investment property. For the sake of this example we will assume it is an office premise, and that you have A\$100,000 to invest. You use this as your deposit, and borrow 70% of the purchase price. You let the tenants rent pay all the bank interest.

The investment is cash flow positive to start with, however for the sake of this simple illustration we will ignore the extra cash surpluses you will be making.

**You forget about the investment for the next 19 years and invest no further money.**

**Now, let's imagine an alternative scenario.**

Again, it is the beginning of 1971, but you decide to "watch the market", be ultra careful and safe and leave your \$100,000 in the bank **and you also diligently add savings to it at the rate of \$10,000 each and every year for the next 20 years.**

For the sake of this comparison, let's say you manage to get a steady 6% Bank interest per annum [after taxes and fees) which you always reinvest.

**You reckon that this "safe" investment strategy plus the constant yearly savings will protect you against inflation and**

**help your wealth creation.**

**Which is the better strategy? The office investment plan, in which you invested \$100,000 and nothing else, will reap \$1.7 million dollars by the end of December 1990.**

The bank savings plan, in which you **invested \$290,000** (\$100,000 initially then \$10,000 per year for 19 years] nearly three times as much, **will reap just \$688,000---** substantially less.

Here then are other calculations for your reference. The actual year on year inflation rates is as published by the reserve Bank of Australia for the relevant year. The rent is a constant 7% of value. The value is taken at the end of the year. The Bank interest is a constant 6% per annum, with the interest always being reinvested.

The property values do not include any additional market price increases. No cash surpluses are added to the property investment, as it is assumed the rents will be used to pay bank interest.

CPI Australia December %	Office Value \$333,000	Your Equity \$100,000	Net Rental \$23,310	Bank savings \$100,000
1971 7.3	357,309			116,000
1972 4.7	374,102			132,960
1973 12.9	422,362			150,937
1974 16.3	491,206			169,993
1975 14.4	561,940	328,940	39,336	190,193
1976 14.2	641,736			
1977 9.3	701,417			
1978 7.7	755,426			
1979 10.1	831,724			
1980 9.2	908,243	675,243	63,577	310,893
1981 11.3	1,020,875			
1982 11.0	1,122,071			
1983 8.6	1,218,569			
1984 2.6	1,250,252			
1985 8.2	1,352,772	1,119,772	78,384	472,415
1986 9.8	1,485,344			
1987 7.1	1,590,803			
1988 7.6	1,711,705			
1989 7.8	1,845,218			
1990 6.9	1,972,538	1,739,538	121,768	688,569

--	--	--	--	--

This Table shows the dramatic difference that just inflation can have on real assets, without even including any market forces or increases. **And remember that the Bank savings plan also cost the investor another \$190,000 which he paid into the account over the period.**

Residential property has good statistics, so it is easier to see what happened during the same time frame with real prices, not just indexed to inflation.

**And the result is even more staggering.**

Ignoring indexing just for inflation, the figures using real Melbourne apartment's price increases over the same time frame, as recorded by Bis Shrapnel and Residex, **would show that your equity above would have been over \$2.5 million, substantially more again.**

**Warren Buffet says leaving your money in the Bank during inflationary times is a disaster.**

The above chart conclusively proves this to be so, and if you ever needed a reason to consider a long term property investment this should be it.

**It is never too late to benefit from this formula. The sooner you start the better. The key to this strategy is to actually get "started".**

Will prices continue to rise? As the economy recovers, and the population continues to grow, prices will surely continue to rise as they have done for the past 100 years.